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SUBJECT: AVOIDING CUTOFF OF TURKISH ELECTRICITY TO NORTHERN
IRAQ

REF: ISTANBUL 0981

11. (SBU) Summary: Karadeniz Toptan Elektrik
Ticaret (Kartet) supplies electricity to Northern Iraq from a
plant in SE Turkey. Kartet Director Nuray Atacik told us
that this year, delays in getting annual renewal of Kartet's
fuel oil export permit and letter of credit from the
Government of Iraq could force the plant to close in January
12008. This would cut electricity to one million Northern
Iraqis, who likely would mistake this for a Turkish economic
sanction. Embassy Baghdad may wish to urge the Iraqi
Ministry of Oil to take action on this issue. End Summary.

12. (SBU) Kartet has a ten-year electricity supply contract
with Iraq to 2013. (Kartet also imports electricity from
Iran, reported reftel.) It exports electricity from a power
plant located just north of Habur gate. Since 2003, the
amount of electricity supplied to Iraq has grown steadily.
Currently, Kartet supplies 200 megawatts to 1 million Iraqis
in Northern Iraq, approximately 10% of the total power in
this region. Its project represents the first private
Turkish export of electricity abroad and was actively
supported by the GOT as a project to help stabilize Iraq. At
the time of the contract signing, the press dubbed the
project as a "friendship of power." The contract is unique
and includes a barter-like provision, trading heavy fuel oil
from Iraq for electricity. Very limited alternative uses for
this type of fuel oil makes the arrangement ideal for Turkey
(cheap input for electricity generation) and Iraq (export of
low value, unwanted commodity). Atacik admitted that the
plant produces a lot of pollution, in large part due to the
type of fuel oil used.

13. (SBU) Atacik described the cumbersome bureaucratic red
tape that Kartet must go through each year to continue
operations: (1) renew its license to export electricity with
the Turkish Energy Markets Regulatory Authority; (2) renew
its contracts with the Iraqi Ministry of Oil for the purchase
of heavy fuel oil; and (3) ensure that the Iraqi Ministry of
Finance opens a letter of credit for the purchase of
electricity. Last year, delays in the renewal of the fuel
oil contract and letter of credit resulted in lack of fuel

oil and reduced the plant's output to 10 percent of capacity in February 2007. This year, Atacik said, its fuel oil reserves are lower and the electricity output higher, so any delay in fuel oil shipments could force the plant to close in January. Atacik requested Embassy assistance in getting the necessary approvals from the government in Baghdad before the end of the year. She noted that the renewal process with Turkish authorities was on-track.

14. (SBU) Comment: This is not a U.S. investment and we have no commercial interest in Kartet's operations. However, the press has widely reported that the GOT included cutting off of electricity exports to Iraq in a package of anti-PKK economic sanctions it approved (but did not implement) last month. An inadvertent closure of Kartet's plant due to licensing delays likely would be seen by the Iraqis as the Turks imposing economic sanctions, unnecessarily increasing tensions between Iraq and Turkey. Embassy Baghdad may wish to urge the Iraqi Ministry of Oil to issue Kartet its export permit and letter of credit in December, to keep Northern Iraq supplied with power in January.

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